

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL 13)

Docket No. RM2015-7

**REPLY COMMENTS OF
THE NATIONAL POSTAL POLICY COUNCIL**
(May 13, 2015)

The National Postal Policy Council (“NPPC”)¹ respectfully submits these reply comments on the Postal Service’s proposed change to its model for city carrier street time costs filed December 11, 2014.

NPPC commends the Postal Service for striving to improve the accuracy of cost attribution methodologies. As the Postal Service correctly notes, both the mailstream and the nature of carrier activities have changed greatly since the last city carrier cost study was conducted in 2002. Mail volume has declined as technological innovation has spurred compelling alternatives to mail, the mail mix itself has changed, carrier routes have grown lengthier, the percentage of mail bearing barcodes has increased, and the Flats Sequencing System is being implemented. Accordingly, updating the model to reflect the current operating environment is appropriate and necessary.

¹ The National Postal Policy Council is an association of large business users of letter mail, primarily Bulk First-Class Mail using the Automation rate category, with member companies from the telecommunications, banking and financial services, insurance, and mail services industries. Comprised of 39 of the largest customers of the Postal Service with aggregated mailings of nearly 30 billion pieces and pivotal suppliers, NPPC supports a robust postal system as a key to its members’ business success and to the health of the economy generally.

As users of Market Dominant postal products, NPPC members believe it essential that the cost attribution methodologies used by the Commission and the Postal Service are sufficiently robust to detect any cross-subsidy and to ensure that all costs caused by Competitive Products are accurately charged to those products as required by 39 U.S.C. §3633. In this regard, we urge the Commission to keep a particularly close eye on whether costs incurred in the provision of Competitive Products are improperly classified as institutional costs.

The Postal Service's proposed modifications would appear to improve certain aspects of the current methodology, especially the new method of developing the cost pools. At the same time, NPPC is somewhat troubled by the seemingly counterintuitive 1.2 percent decrease² in the percentage of costs attributed using the Postal Service's proposed new city carrier street time model. In this vein, NPPC notes that several commenters have raised questions about certain aspects of the proposal, such as the adequacy of the sampling underlying the volume variability analyses, which could affect the proportion of costs attributed.³ These are questions for the Commission to evaluate, but do not appear to undermine the general improvement the proposed new model makes over the current one.

² For many years, it was assumed that city carrier cost attribution would decline as mail volume and route "coverage" increased, causing more costs to be treated as "common" and thus not attributed. With mail volume falling, the same reasoning would suggest that the reverse should be occurring and attribution increasing.

³ See *Public Representative Comments* at 6-16 (March 18, 2015); *Comments of the Association for Postal Commerce* at 2-3 (March 18, 2015).

Also, several commenters suggested that the model might be flawed because the routes used in the sampling did not include any Sunday parcel delivery routes. That those costs are attributable is not in doubt -- the Postal Service elsewhere has acknowledged that Sunday parcel deliveries are attributable to parcels:

the methodology used to arrive at the Sunday/Holiday delivery cost for NSA packages assumes that 100 percent of the costs are attributable to the packages delivered. Those procedures, the details of which are presented in USPS-FY14-NP27, carefully calculate the complete range of Sunday costs incurred, and then actually conclude with a final adjustment that pulls costs that would otherwise be reported as institutional and shifts them to NSA costs. While the details of the calculations are provided under seal, the Commission has ample opportunity to confirm that the costs of Sunday delivery are properly allocated to the appropriate NSA product.

Reply Comments of the United States Postal Service, Docket No. ACR2014 at 18-19 (Feb. 17, 2015). NPPC notes that in quoted passage the Postal Service describes a calculation that is separate from its new street time model. The question for the Commission in this proceeding is whether the omission of any Sunday parcel delivery routes from the delivery time variability analysis is sufficiently material to affect the validity of the model.

The sheer amount of city carrier costs makes accurate attribution highly important. If a fundamentally different model along the lines of that suggested by Dr. Kevin Neels⁴ (or any other proposal that may be submitted) -- when properly developed -- would improve the accuracy of city carrier cost attribution even more than

⁴ *United Parcel Service Comments on Postal Service Proposal Thirteen Regarding City Carrier Street Time Costs*, Exhibit A (March 18, 2015).

the Postal Service's proposed model, the Commission should be open to giving it full and fair consideration subject to appropriate public review and comment.

IV. CONCLUSION

For the foregoing reasons, the National Postal Policy Council respectfully urges the Commission to take these Comments into consideration in deliberating whether to modify the accepted model for city carrier cost attribution.

Respectfully submitted,

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